

Estate Tax



The estate tax before this past legislative session:

- Prior to this past legislative session, Connecticut taxed transfers of estates that exceeded \$2 million. This was a progressive tax that began at 5.085% at \$2 million and increased to 16% at \$10,100,000.
- The estate tax had a “cliff”. Transfers of \$2,000,000 million or less were not taxed at all while a transfer of \$2,000,001 was taxed in its entirety (starting from the first dollar) at the rate of 5.085%. Thus, \$0 in tax was assessed on an estate of \$2,000,000 but \$100,700 was assessed on an estate of \$2,000,001.

Three changes were made in the biennial budget that was adopted in the 2009:

1. The threshold for the value of an estate that was subject to the tax was increased from \$2 million to \$3.5 million.
2. The tax rates on estates were reduced. Whereas the old estate tax went up to 16% at the highest levels, the top rate in the new estate tax was reduced to 12%.
3. The tax “cliff” was fixed by exempting the first \$3.5 million of all estates.

Changes in the 12/21/09 DMP:

- The changes made in the 2009 session will be delayed two years.
- **For the next two years:**
 - The threshold for a taxable estate will remain at \$2 million.
 - Tax rates will not be reduced.
 - The tax “cliff” will be fixed in a “revenue neutral” manner, by exempting the first \$2 million of all estates from the tax but slightly increasing the rates on the remainder of the estate.*

Example #1:

An estate with a value of \$2.1 million is transferred to heirs. What is the tax on this?

	<i>Tax calculation</i>	<i>Tax</i>
Before the 2009 session	The entire estate would be taxed at a rate of 5.085%.	\$106,785
With the changes contained in the 12/21/09 DMP	The “marginal” \$100,000 would be taxed at a rate of 8%. $\$100,000 \times 8\% =$ a tax of \$8,000. In two years time, a similar estate would not be taxed.	\$8,000

Example #2:

An estate with a value of \$3.1 million is transferred to heirs. What is the tax on this?

	<i>Tax calculation</i>	<i>Tax</i>
Before the 2009 session	The entire estate would be taxed beginning at a rate of 5.085% and increasing to a rate of 8.8%.	\$190,800
With the changes contained in the 12/21/09 DMP	The “marginal” \$1.1 million is taxed beginning at a rate of 8% and increasing to a rate of 11.2%. In two years time, a similar estate would not be taxed.	\$112,000

**Per OFA, the break-even-point between “winners” and “losers” in fixing the cliff occurs at \$5.716 million. In FY08, around 75% of the estates that pay taxes would have been winners with this fix of the cliff.*